

LATVIA

By Interfax-CNA

Latvia's economy expanded by 7.5% in 2003. Trade, which accounted for 20% of GDP, increased by 11%. The manufacturing industry, accounting for 14.9%, grew by 9.1%, transport and telecommunications made up 14.5% of GDP and rose by 7.9%, and construction made up 6.1% and increased by 13.7%. The Economy Ministry and Central Bank of Latvia forecast GDP growth of 7% in 2004. Latvia saw a budget deficit of Lat90.8 million (US\$165 mln), or 1.6% of GDP, in 2003 against 1.9% of GDP in 2002. In November 2003 Fitch rating agency improved its long-term foreign currency rating outlook for Latvia (BBB+) to positive from stable.

Latvia's mining industry is small. It focuses on extraction of peat and industrial minerals (clays, dolomite, gypsum, limestone, sand for glass and bricks production). The country has a steel mill, Liepajas Metalurgs, which uses scrap metal and imported iron ore.

Liepajas Metalurgs, a Latvian producer of rebar, nails and mesh, nearly tripled net profit in 2003 to Lat3 million (US\$5.4 million) thanks to profitable orders and high metal prices. This was a good year for the company, with a carefully thought out business policy. Liepajas Metalurgs began exporting to another ten countries in 2003, and now exports to more than 40 countries. It is not yet clear whether the company would increase exports to the US following the recent lifting of duties on steel imports. The company now sells 7% of output in the US.

Liepajas Metalurgs makes rebar, nails and mesh, and produces about 40,000 t/mth of metal products. The controlling stake in the company is held by management after Ireland's Gesil Ltd sold its controlling stake in September 2003.

Meanwhile, Riga-based Severstallat, a subsidiary of Russian steelmaker Severstal, began production of small-diameter pipes from steel provided by its parent company. Severstal will supply the mill with pickled and cold-rolled steel, as well as metal with aluminum-zinc and aluminum-silicon coating. The pipe production line, with annual capacity of 27,600 t, was bought in June 2003 from France's Tenneco Automotiv. It is expected to pay for itself in 3.3 years. Severstal intends to sell the pipes in the Baltic countries, Germany, Finland and Eastern Europe.

Latvia is still fully dependent on fuel imports. The situation could undergo some changes if Latvia succeeds in starting commercial oil production. In 2003, the government permitted exploration and production of oil to be carried out on dry land by confirming changes in a number of regulations governing the holding of tenders for the right to explore and produce hydrocarbons. Previously, exploration and production of hydrocarbon was permitted only

offshore. According to Economics Ministry information, there may be almost Lat1 billion (US\$1.8 billion) worth of oil under Latvia's soil. The Economic Ministry said that Latvia's onshore fields contain 63 Mbbl of oil.

Companies that earlier announced plans to explore for oil onshore in Latvia include Hunt Oil Co, Anadarco Petroleum Corp., Calenergy Gas Ltd, EDC Ltd, JKX Oil and Gas, Rockford Energy Ltd, Northern Petroleum plc, Oljeprospektering AB, GotOil Resources Ltd, GX Technology Ltd, Minijos Nafta, Petrobaltic, OOO Energija, OOO PLE and Armstrong Lighting, but due to the absence of regulatory support their attempts to receive licences were unsuccessful.